



QUASI-GOVERNMENTAL CESSATION



General Information Guide for
**KERS Nonhazardous
Opt-Out
Under HB 1**



Q *What does cessation mean?*

A On July 24, 2019, Governor Bevin signed into law House Bill 1 (HB 1), which was introduced and declared an emergency during the 2019 Special Session of the Kentucky General Assembly. This law allows certain employers to elect to cease participation in (that is, “opt-out” of) the Kentucky Employees Retirement System (“KERS”) for its nonhazardous employees, and provides that any employer who opts-out shall provide an alternative defined contribution retirement program for those employees.

An employer who opts-out of KERS is required to pay its share of unfunded pension liability, either in a lump-sum payment, or in installment payments.¹ This new legislation does **NOT** apply to KERS members in hazardous duty positions, or to employers or members participating in the County Employees Retirement System or the State Police Retirement System.

The effective date of cessation is June 30, 2020.

Q *Which employers and employees does this law cover?*

A HB 1 applies only to “Quasi-Governmental” employers (“Quasi-Governmental employer” or “employer”), defined as: Any KERS employer that is a nonstock nonprofit corporation organized under KRS Chapter 273, local and district health departments governed by KRS Chapter 212, state-supported universities and community colleges, and the Kentucky Higher Education Student Loan Corporation. A list of employers eligible for this voluntary election can be found here: [Quasi-Governmental Employers](#).²

Q *How is the process initiated?*

A A Quasi-Governmental employer may begin the process by requesting an estimate of the cost of opting-out for its nonhazardous employees. The request for an estimate must be submitted to Kentucky Retirement Systems (“Systems”) prior to December 31, 2019. The Systems has sixty (60) days from the date it receives the request to provide the estimate; however, the Systems is not required to provide any estimate prior to January 31, 2020. An employer requesting an estimate shall pay all costs (actuarial and administrative) of the estimate. If the number of employees and former employees to be submitted to the actuary for purposes of determining the estimated actuarial cost of opting-out equals 1 to 100 employees, the administrative cost shall be \$1,500. If the number of employees and former employees to be submitted to the actuary for purposes of determining the estimated actuarial cost of opting-out equals 101 or more employees, the administrative cost shall be \$4,000.

A request for estimate is initiated by completing and submitting the following estimate request form, along with payment of the above-listed administrative cost to the Systems: [Form 7726 - Request for Estimated Cost of Voluntary Cessation from KERS under KRS 61.522\(8\)](#)³

The Systems shall provide the estimate of the cost based on the information currently in its database and projecting the service and salary of all active employees as if they remain employed and continue to earn the same creditable compensation until June 30, 2020. The estimate shall not be binding.

The final cost of cessation will be calculated based upon the actual data produced as of June 30, 2020, and, therefore, cannot be provided until the Quasi-Governmental employer has submitted a resolution declaring its cessation from KERS as set forth below, and until sixty (60) days from June 30, 2020, has elapsed so that the number of eligible employees that have elected to transfer his or her accumulated account balance to the alternative retirement plan established by the employer is known.

NOTES: ¹ For employers electing a soft freeze with installments, payments are determined over a 30-year period, with the initial monthly payment amount (fiscal year 2021) set at a dollar amount such that an increase of 1.5% annually results in the liability being fully satisfied in 30 years. Employers electing a hard freeze will continue to contribute 49.47% of payroll for fiscal year 2021, with the dollar amount of contribution increasing by 1.5% annually for 30 years. If a balance exists after 30 years, the balance is forgiven.

² https://kyret.ky.gov/Employers/Quasi_Agencies/2020/KERS_Quasi_Agencies_FY_2020_Reduced_Employer_Rate.pdf

³ <https://kyret.ky.gov/Employers/Resources/Employer%20Forms/Form%207726.pdf>

Q

How must a Quasi-Governmental employer notify the Systems that it has elected to opt-out of KERS under HB1?

A

Employers who elect to opt-out of KERS, must submit a resolution to the Systems' Board, on or after April 1, 2020, but before May 1, 2020, indicating that the employer has elected to opt-out of KERS. The resolution must have been adopted by the employer's governing body and must further indicate if the employer's nonhazardous employees hired prior to June 30, 2020, with a participation date in the Systems prior to January 1, 2014 (Tier 1 and Tier 2 members), will continue to participate in KERS after June 30, 2020.

The resolution must also include the employer's decision on whether it is going to pay the full actuarial cost of ceasing participation by lump-sum or through installments.

Any employer who submits a resolution electing to opt-out of KERS, may rescind the resolution prior to May 1, 2020.

An employer eligible to opt-out of KERS under HB 1, who does not submit the required resolution before May 1, 2020, shall continue to participate in KERS and shall pay the full actuarially determined contributions established by statute for fiscal years occurring on or after July 1, 2020.

Additional Information:

Any employer who opts-out of participation in KERS shall be required to pledge any security in any relevant real estate, chattel paper, deposit accounts, documents, goods covered by documents, instruments, investment property, letters of credit rights, and money to the costs of ceasing participation until all costs of ceasing participation are paid in full.

An employer that opts-out of participation in KERS and elects to pay off the costs by installment payments, who later becomes ninety (90) days or more delinquent on their installment payments may: 1) be subject to an action in the Franklin Circuit Court for collection of the delinquent payments; and 2) be subject to the withholding or interception of any appropriated state funds by the Finance and Administration Cabinet until the installment payments are satisfied. Moreover, the ceased employer's participating employees shall not receive any additional service credit accrual until the installment payments are satisfied.

Any employer who opts-out of KERS and who elects to make installment payments may, at any time, pay off a portion of the remaining balance or the entire remaining balance and shall not be charged interest for periods beyond the pay-off date.

Q

How will an employer's decision to opt-out affect current employees?

A

Soft Freeze Option: A Quasi-Governmental employer who elects to opt-out of KERS for nonhazardous employees shall decide if its Tier 1 and Tier 2 nonhazardous employees will continue to participate in KERS after June 30, 2020.

If the Quasi-Governmental employer elects the soft-freeze option, employees will continue to contribute and earn service credit in KERS for as long as they remain employed with the same employer in a regular full-time position that is eligible to participate unless the employer is delinquent in making installment payments. If the ceased employer elects the soft-freeze option and is ninety (90) days or more delinquent in making installment payments, employees of that employer who are continuing to participate after June 30, 2020 will not accrue any additional service credit or benefits through that employer until the employer has paid the required payments.

Hard Freeze Option: If the employer elects to cease participation for all nonhazardous employees, all KERS participating employees shall continue to contribute and earn service credit in KERS through June 30, 2020. Thereafter, eligible nonhazardous employees will participate in the alternative retirement plan established by their employer.

Any nonhazardous employee of a ceasing employer hired on or after January 1, 2014 (Tier 3 employees), will cease participation in KERS on June 30, 2020, and thereafter participate in his/her employer's alternative retirement plan.

Q What will happen to an employee's retirement account if the employee has earned service credit with an employer that opts-out of KERS?

A Unless an employee takes a refund, if eligible, or is eligible to transfer his/her accumulated account balance to the employer's alternative plan, employees with KERS service credit will not lose their retirement account if the employee's employer or former employer opts-out of KERS. However, all Tier 3 employees of a ceasing employer, and any Tier 1 and Tier 2 employees of a ceasing employer who elected the hard-freeze option, will no longer earn service credit towards retirement benefits, including insurance, with KERS beginning June 30, 2020.

The employer cannot require an employee to transfer his/her Systems retirement account to the ceased employer's alternative retirement plan.

Any Tier 3 employee of a ceasing employer on June 30, 2020, and any Tier 1 or Tier 2 employee of a ceasing employer, who, on June 30, 2020, is an employee of an employer that elected the hard-freeze option, may, within sixty (60) days of June 30, 2020, elect to transfer his or her accumulated account balance to the alternative retirement plan established by the employer.

Employees must terminate their employment with the ceasing employer in order to be eligible for a refund of their account or to apply for retirement benefits.

Q What should an employee do if he/she has questions or wants more information regarding their retirement account?

A To learn more about their retirement account, an employee should utilize the Systems' online Self Service ("Self Service") tool. Registering for Self Service will allow an employee to access his/her current account information. If the employee is a first-time user of Self Service, they will need to register. The employee must have their Systems Personal Identification Number (PIN) to register online and validate any changes made to their account information.

To register, the employee should go to the Systems' homepage at <https://kyret.ky.gov>:

1. Click on **"LOGIN"** in top right corner.
2. Click on **"MEMBER LOGIN"** if the employee is not retired or **"RETIREE LOGIN"** if the member is retired.
3. On the next screen, click the "Need to Register?" link.
4. Enter the Social Security Number and Date of Birth. Click the "Next" button.
5. Enter the employee's Systems PIN. If you can't find your PIN, use the link to request a new PIN in Step 2 of the registration process.
6. Enter a valid email address. Click the "Next" button.
7. Enter a User ID, password, and select and answer a secret question.
Make sure the User ID and password meet the requirements noted on this page. Click the "Next" button.
8. The registration will be complete and the employee will be logged into his/her account.

The next time the employee logs into Self Service, he/she will only need to provide the User ID and password created in step 7 of the registration process. If the employee cannot remember the User ID or password, the employee can reset them by clicking on the "Forgot User ID or Password?" link. If the employee is unable to reset them, the employee may register for Self Service again by clicking the "Need to register?" link and following the steps outlined above.

Please be advised that multiple unsuccessful attempts to log into Self Service may void the member's four-digit PIN. In that case, the member may request a new PIN during the Self Service registration process. If the member has questions, concerns, or has issues logging into Self Service, they should contact our office at (502) 696-8800 or 1-800-928-4646. When the member calls, he/she will be asked for their member ID.



MEMBER video - <https://kyret.ky.gov/Members/Pages/Self-Service.aspx>

RETIREE video - <https://kyret.ky.gov/Retirees/Pages/Self-Service.aspx>

IMPORTANT DATES TO REMEMBER:

Now – December 30, 2019	Period in which an employer may request an estimate from the Systems regarding the cost of cessation.
December 30, 2019	Last day an employer may request an estimate from the Systems (the Systems has 60 days from date of request to provide the estimate).
January 31, 2020	First date that the Systems is required to provide estimates to employers.
February 28, 2020	Last day the Systems may provide estimates to employers who requested one.
April 1, 2020	First day an employer may submit a resolution to the Systems voluntarily ceasing participation in KERS.
April 30, 2020	Last day an employer may submit a resolution to the Systems voluntarily ceasing participation in KERS.
April 30, 2020	Last day an employer may rescind a previously submitted resolution to the Systems voluntarily ceasing participation in KERS.
June 30, 2020	Effective date of cessation for any employers who opted-out of KERS.
July 1, 2020 – August 31, 2020	Period within which any Tier 3 employee of an employer who opted-out of KERS, and those Tier 1 and Tier 2 employees of an employer who elected the “hard freeze” opt-out option, may request a trustee-to-trustee transfer of his or her accumulated account balance.



Kentucky Retirement Systems

1260 Louisville Road
Frankfort, Kentucky 40601

Members: 1-800-928-4646

Employers: 1-888-696-8810

Monday - Friday
8:00 AM - 4:30 PM (EST)



<https://kyret.ky.gov>



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